

DATE: May 13, 2014

SUBJECT: Draft Agreement in Principle Concerning Extension of the State Water Project¹ Water Supply Contracts

This document contains a proposed ~~S~~statement of ~~P~~principles that could provide the foundation for an agreement ~~among the~~between each State Water Project Contractors² (Contractors) and the Department of Water Resources (DWR ~~or Department~~) that will extend ~~and otherwise amend~~ the ~~Water Supply e~~Contracts between such Contractor and DWR.

Summary To-Date of Contract Extension Negotiation Proposed Offers

May 1, 2013 ——— Contractors' 1st Offer (Initial Offer)
 May 1, 2013 ——— DWR's 1st Offer (Initial Offer)
 June 26, 2013 ——— Contractors' 2nd Offer
 July 10, 2013 ——— DWR's 2nd Offer
 August 7, 2013 ——— Contractors' 3rd Offer
 September 4, 2013 ——— DWR's 3rd Offer
 September 17, 2013 ——— Contractors' 4th Offer
 October 2, 2013 ——— DWR's 4th Offer
 October 16, 2013 ——— Contractors' 1st Tentative Offer
 October 23, 2013 ——— DWR's 1st Tentative Offer
 December 17, 2013 ——— Contractors' 5th Offer
 January 8, 2014 ——— DWR's Edits to Contractors' 5th Offer
 January 15, 2014 ——— Contractors' 6th Offer
 January 15, 2014 ——— DWR's Edits to Contractors' 6th Offer
 January 15, 2014 ——— SWP Contractors 7th Offer
 January 22, 2014 ——— DWR's Edits to Contractors' 7th Offer
 January 22, 2014 ——— SWP Contractors 8th Offer
 January 27, 2014 ——— DWR's Edits to Contractors' 8th Offer
 January 29, 2014 ——— SWP Contractors 9th Offer
 January 29, 2014 ——— 1/29 Negotiation Session Offer with Track Changes
 February 12, 2014 ——— 2/12 Contract Extension Offer V1
 February 12, 2014 ——— 2/12 Contract Extension Offer V2
 February 12, 2014 ——— 2/12 Contract Extension Offer V3
 February 12, 2014 ——— 2/12 Contract Extension Offer V4

¹ The State Water Project is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)

² The State Water Project Contractors includes ~~the SWC organization's 27 member public agencies, Butte County Water and Resource Conservation, and Plumas County Flood Control and Water Conservation District Alameda County Flood Control and Water Conservation District (Zone 7), Alameda County Water District, Antelope Valley-East Kern Water Agency, Castaic Lake Water Agency, City of Yuba City, Coachella Valley Water District, County of Butte, County of Kings, Crestline-Lake Arrowhead Water Agency, Desert Water Agency, Dudley Ridge Water District, Empire West Side Irrigation District, Kern County Water Agency, Littlerock Creek Irrigation District, The Metropolitan Water District of Southern California, Mojave Water Agency, Napa County Flood Control and Water Conservation District, Oak Flat Water District, Palmdale Water District, Plumas County Flood Control and Water Conservation District, San Bernardino Valley Municipal Water District, San Gabriel Valley Municipal Water District, San Geronimo Pass Water Agency, San Luis Obispo County Flood Control and Water Conservation District, Santa Barbara County Flood Control and Water Conservation District, Santa Clara Valley Water District, Solano County Water Agency, Tulare Lake Basin Water Storage District, and Ventura County Flood Control District.~~

February 12, 2014 — 2/12 Contract Extension Offer V5

February 12, 2014 — 2/12 Contract Extension Offer V6

February 12, 2014 — 2/12 Contract Extension Offer V7

February 27, 2014 — 2/27 Contract Extension Offer V8

March 4, 2014 — 3/4 Contract Extension Offer V9

March 5, 2014 — 3/5 Contract Extension Offer V10

March 6, 2014 — 3/6 Contract Extension Offer V11

March 6, 2014 — 3/6 Contract Extension Offer V12

March 6, 2014 — 3/6 Contract Extension Offer V13

March 6, 2014 — 3/6 Contract Extension Offer V14

March 6, 2014 — 3/6 Contract Extension Offer V15

March 6, 2014 — 3/6 Contract Extension Offer V16

March 6, 2014 — 3/6 Contract Extension Offer V17

March 6, 2014 — Draft Final 3/6 Contract Extension Offer V18

Outline of ~~Proposed Offer~~ Agreement in Principle

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STATEMENT OF PRINCIPLES

I. OBJECTIVE 1: TERM OF CONTRACT

A. Water Supply Contract Term Extension

1. Extend term of the SWP water supply contracts ~~by 50 years from December 31, 2035~~ to December 31, 2085.

II. OBJECTIVE 2A: RESERVES

A. General Operating Account (GOA)

1. **Uses of GOA** - Cash flow deficiencies resulting from chargeable water supply purposes and/or during a SWRDS emergency for any SWRDS purpose.
2. **SWRDS Emergency** - An immediate, urgent, critical, unexpected, or impending situation that, in the ~~Director's~~ judgment of the Director, Department of Water Resources (Director), may cause or pose a risk of causing injury, loss of life, damage to the property, impairment of the financial condition, and/or interference with the normal activities of the State Water Resources Development System which requires immediate attention and remedial action.
3. **Initial Cap** - Increase the authorized General Operating Account (GOA) ~~balance initial cap from \$22.7 million~~ to \$150 million ~~pursuant to~~ in Article 51(a)(3).

4. **Cap Adjustment Determination** - Every five years subsequent to the year of the initial cap increase, there shall be a business case analysis on the GOA authorized cap including an evaluation of the cap and business risks associated with SWRDS cash flow provided to the SWRDS Finance Committee for recommendation to the ~~DWR~~ Director regarding a GOA cap adjustment. If there is a decrease in the cap (but the cap shall not be lower than \$150 million), the excess funds would be transferred to the SWRDS Reinvestment Account (SRA).
5. **Cap Adjustment Funding Source (Pre-2035)** - Shall be the Director's discretion to use 51(e)³ revenues, investment earnings retained in the GOA, and transfers of funds from the SRA and SWRDS Support Account (SSA).
6. **Cap Adjustment Funding Source (Post-2035)** - Shall be the Director's discretion to use the investment earnings retained in GOA and the funds within the SRA and SSA.
7. **Rate of Funding for Cap** - Limitation on the amount (\$2 million per year) and timing of additional contributions to the GOA contained in Article 51(e)(3)(v) will be deleted. DWR will be able to use any amount of available 51(e) revenues to increase funds in the GOA up to the authorized maximum GOA funding level and such funding shall be subordinate to the annual rate management reductions to the ~~water~~ e Contractors.
8. **GOA Replenishment** - Replenishment of the use of GOA funds will come from charges to the ~~water~~ e Contractors to the extent the expended funds were spent on chargeable water supply purposes and from the SSA or other available revenues for costs not chargeable to the Contractors.
9. **GOA Reporting** - DWR will prepare monthly reports on the balance and use of the GOA for the Director, which will be provided to the SWRDS Finance Committee. The SWRDS Finance Committee will periodically review reporting frequency and make recommendations to the Director regarding reporting frequency.
10. **GOA Investment Earnings** - shall be used as follows:
 - a) Funding GOA to authorized GOA funding level;
 - b) Transferred, at the discretion of the Director, to the SWRDS Support Account (SSA) and/or to the SWRDS Reinvestment Account (SRA).

III. OBJECTIVE 2B: ACCOUNTS (~~SSA~~, SRA, SSA, FCA)

A. SWRDS Reinvestment Account (SRA)

³ The definition and calculation of 51(e) revenues will be included in the contract amendment language.

1. **Effective Date of SRA** - The SRA shall be established and take effect upon the effective date of the contract extension amendment.
2. **SRA Uses** - The primary purpose is to provide a post-2035 SWRDS revenue stream by investing SRA funds in [chargeable](#) SWRDS facilities and programs.
3. **Funding Source** - At the discretion of the Director, available Article 51(e)(1)(ii) revenues collected by the State pre-2035. The Director also has discretion to transfer funds from the SSA or the GOA.
4. **Cap on SRA** - There will be no Cap or Cap Adjustments to the SRA.
5. **SRA Investments** - At the discretion of the Director, authorized SRA investments shall be as follows:
 - a) Investment in SWRDS capital facilities, recovered at the prevailing municipal bond market rates corresponding to the SWRDS bond rating at the time of financing, in maturity ranges that may extend 10 to 50 years, [provided that if the capital asset being financed has a useful life of less than 10 years, the investment may be recovered over a comparable period of less than 10 years;](#)
 - b) Bridge financing of capital costs in lieu of the SWRDS commercial paper program; and
 - c) Allowable investments for SWRDS that generate a monetary return on investment.
6. **Use of SRA Funds** - At the discretion of the Director, the SRA funds, including but not limited to investment earnings, shall be used to:
 - a) Provide a source of replenishment funds to the SSA;
 - b) Provide a source of funds to be held in the SRA for investment purposes; and
 - c) Provide a funding source for funding level adjustments to the GOA.
7. **SRA Review** - The SWRDS Finance Committee is to be consulted about the investments and activities to be funded from the SRA.
8. **SRA Reporting** - DWR will prepare regular reports on the SRA for the Director, which reports will be provided to the SWRDS Finance Committee.

B. SWRDS Support Account (SSA)

1. **Effective Date of SSA** - The SSA shall be established and take effect upon the effective date of the contract extension amendment.

2. **SSA Uses** - The purpose of the SSA shall be to provide a source of funds to pay for non-chargeable expenditures where there are no funds or revenue sources available to pay for such costs. If reimbursement or a source of revenue is received after the expenditure is incurred this revenue shall be deposited in the SSA.
3. **SSA Review** - The SWRDS Finance Committee shall be consulted about the projects and activities to be funded from the SSA.
4. **SSA Reporting** - DWR will prepare regular reports on the SSA for the Director, which will be provided to the SWRDS Finance Committee.
5. **Initial Cap** - There would be no cap on the SSA.
6. **Funding Source for Initial Funding** - 51(e) revenues and/or the remaining balance of the [State Water](#) Facilities Capital Account (FCA) once the FCA is closed.
7. **SSA Replenishment** - Shall be accomplished through 1) reimbursements received for expenditures made from the SSA; 2) at the discretion of the Director, transfers from the SRA and/or from the GOA's available investment earnings, 3) deposits, in the discretion of the Director, from other available revenues, and 4) interest and other investment income retained in the SSA. DWR will not charge the Contractors to replenish the SSA for costs not chargeable to the Contractors under the Water Supply Contracts.
8. **SSA Interest Earnings** – At the Director's discretion, retained in the SSA to reduce the annual SRA replenishment requirement.

C. State Water Facilities Capital Account (FCA)

1. The State Water Facilities Capital Account (FCA) pursuant to Article 51(c)(2)(v) shall be reviewed by the SWRDS Finance Committee after five years from the date of the contract amendment to recommend to the Director whether or not it should be closed and the balance of the account transferred to the [State Water Resources Development Support Account](#) (SSA).

IV. OBJECTIVE 2C: FLOW OF FUNDS

A. Maintain the Monterey Amendment Article 51 Flow of Funds with the following edits/additions:

1. Increase Annual Rate Reductions to \$48 million. The Annual Rate Reductions shall no longer apply after December 31, 2035 and the applicable provisions in Article 51 shall be deleted as of that date.

2. After the \$48 million in annual rate reductions, the Director shall have the discretion to allocate and transfer up to 80% of available 51(e) revenues, as determined on a projected basis, and up to 100% on an actual basis into one or more of the following accounts:

- a) General Operating Account (GOA)
- b) SWRDS Support Account (SSA)
- c) SWRDS Reinvestment Account (SRA)

After funds are deposited into a, b, and c above, any remaining available 51(e) revenues will remain in the Systems Revenue Account and will be tracked separately in DWR's Enterprise Resource Planning (ERP) system. The Director will have full discretion over the use of these funds. DWR will prepare financial reports annually with supporting documentation of the determination and provide these reports to the Finance Committee.

3. Contractors shall agree to forego additional rate management reductions including additional rate management reductions to make up for deficiencies in past projected rate management reductions or to provide any additional rate management reductions above \$48 million annually pursuant to Article 51(e)(3). Effective with the contract amendment, Article 51(e)(3) shall be deleted.
4. The contract amendment shall specify those provisions in Article 51 that shall remain in effect after December 31, 2035 (such as the General Operating Account provision as it may be amended) and those provisions that will no longer apply after December 31, 2035 ~~which~~ and shall be deleted as of that date.
5. Contractors shall agree to waive and release ~~other~~ issues related to DWR's recent adjustment of the ~~water-e~~ Contractors' responsibility for facilities south of Dos Amigos.

V. OBJECTIVE 2D: FINANCIAL MANAGEMENT

A. State Water Resources Development System Finance Committee

1. Immediately, the Department of Water Resources shall establish a joint Department of Water Resources and Contractor finance committee (Committee).
2. The membership of the Committee shall include both representatives from the Department of Water Resources and representatives from the ~~e~~ Contractors.
3. The primary purpose of the Committee shall be to make recommendations to the Director of the Department of Water Resources concerning the financial policies of the State Water Resources Development System.

4. The Department of Water Resources and the Contractors shall describe the scope of the committee in a charter mutually agreeable to the Department of Water Resources and the Contractors.

VI. OBJECTIVE 2E: SUPPLEMENTAL BILLING

A. Supplemental Billing

1. The supplemental billing provisions authorized under Article 51(c)(4) shall remain in effect through December 31, 2035, unless the Director determines in his or her discretion to eliminate the use of supplemental billing prior to that date or upon Director's acceptance of a recommendation from the SWRDS Finance Committee. In full consultation with the SWRDS Finance Committee, DWR will review the System cash balances when the System's [forecasted](#) 120 days cash balance becomes critical. The Committee will make a recommendation for action to the Director. The supplemental billing provision may only be used when available System cash balances are projected to be less than an amount equal to 90 days operating expenditures⁴. [The term "available System cash balances" shall mean the funds in the following California Water Resources Development Bond Fund accounts: System Revenue Account \(to the extent the funds in the System Revenue Account are not projected to be needed for payment of Burns-Porter General Obligation Bond debt service for the next two years\), GOA, SRA and SSA \(to the extent the funds in the SSA are not projected to be needed for non-chargeable expenditures for the next two years\).](#)

VII. OBJECTIVE 2F: COST RECOVERY

A. Cost Recovery

1. In general, DWR should seek reimbursement for all SWRDS costs from the appropriate customers and users of SWRDS facilities, including the State. With respect to those SWRDS costs that are reimbursable by the [State Water](#) Contractors, DWR should allocate financial responsibility for such costs in a manner that is both lawful and equitable, and which endeavors to recover such costs from the appropriate Contractors. If the Department proposes to not charge any Contractor the full amount that the Department is entitled to charge the Contractor under the contract, DWR shall bring a written proposal to the Finance Committee for purposes of developing a recommendation to the Director regarding the proposal. DWR shall submit such proposal in writing to the Finance Committee 90 days in advance of the Director issuing any decision and within such 90 day period the Finance Committee shall provide the Director with a recommendation regarding such proposal. Such proposals will comply with the structure set out in II.D.2 of the SWRDS Finance Committee Charter.

VIII. OBJECTIVE 2G: SWRDS REPORTING PRINCIPLES [EXHIBIT TO THE CONTRACT]

⁴ [A description of "operating expenditures" will be included in the contract amendment language.](#)

- A. During the term of the water supply contracts, it is likely that financial reports and financial management reports will change in scope, nature, and frequency. Regardless of the exact reports used, such reports shall follow the below principles and guidelines to the extent applicable.
1. Principle 1: Financial reporting will be generated from the general ledger or data warehouse of the financial information system (system of record), such as SAP.
 - The financial system of record is the authoritative source for financial reporting data values in a system. To ensure data integrity, there must be one, and only one, system of record for financial reporting values.
 2. Principle 2: Financial reporting is not limited to annual financial statements but will be developed for regular reporting periods.
 3. Principle 3: Financial management reporting generated from other financial systems, such as Utility Cost Accounting Billing System (UCABS), will identify and analyze significant variances from prior years or budgets.
 4. Principle 4: Financial reporting and financial management reporting will identify unusual items and exceptions, and these items will be documented, reviewed, and resolved by management.
 5. Principle 5: DWR will use standardized System-wide business rules and utilize a centralized financial system, such as SAP, UCABS, or other system, to provide controls/validations to ensure data integrity and reliable reporting.
 6. Principle 6: DWR will use standardized data integrity rules in the development and publication of reports, including but not limited to the following:
 - (1) Data integrity refers to the accuracy and consistency of data stored in a database, data warehouse, data mart or other construct.
 - (2) Data integrity processes verify that data has remained unaltered in transit from creation to reception or remains unaltered in transit from one system to the next.
 - a. Data used outside of the Enterprise Resource Planning (ERP) systems to meet the reporting needs of Program will undergo any number of operations in support of decision-making, such as capture, storage, retrieval, update and transfer. It is important to have confidence that during these operations, the data will be kept free from corruption, modification and remain unaltered.
 - (3) Data with “integrity” has a complete or whole structure. Data values are standardized according to a data model and/or data type. All characteristics of the

data must be correct – including business rules, relations, dates, definitions and lineage – for data to be complete.

- (4) Data integrity is imposed within an ERP database when it is created and is authenticated through the ongoing use of error checking and validation routines.
- (5) Data integrity state or condition is to be measured by the validity and reliability of the data values.
- (6) Data integrity service and security maintains information exactly as it was input, and is auditable to affirm its reliability.

The SWRDS Finance Committee is charged with providing financial policy recommendations to the ~~DWR~~ Director, and the ~~DWR~~ Director has final discretion on whether or not to accept the recommendations. While the SWRDS Finance Committee is not charged with reviewing the content of financial reports, timely and accurate financial reporting and financial management reporting provides technical committees access to useful information that can be used to formulate proposals on financial policy matters that may be brought to the SWRDS Finance Committee.

IX. OBJECTIVE 2H: 51(e) REVENUE REPORTING REQUIREMENTS

A. 51(e) Revenue Report

1. Create and distribute the Annual Rate Reduction Determination Report. In addition, display the distribution of Gross Annual Revenues before Recreation, Fish and Wildlife Expenditures, Facilities Capital Account and Rate Management Credits and Net Annual Revenues after Rate Management Credits to the accounts listed in item 2 below. ~~The definition and calculation of 51(e) Revenues will be included in the contract amendment language.~~ [Deleted sentence is now Footnote 3.]
2. Create and distribute quarterly an Activity Report by fund-account for all uses, including but not limited to the following accounts:
 - a) General Operating Account (GOA)
 - b) SWRDS Support Account (SSA)
 - c) SWRDS Reinvestment Account (SRA)
 - d) Systems Revenue Account, 51(e) Sub-Account
 - e) Davis-Dolwig Fund
 - f) Facilities Capital Account
 - g) Suspended Costs
3. The Activity Report shall display the annual and accumulated 51(e) revenue and expenditure activity, including the beginning balance, the annual activity and the ending balance for the year.
4. Reporting data shall be auditable which includes an audit trail from the costing ledgers to the general ledger or the ~~b~~Bulletin 132 estimates to the ~~51(e) Revenue~~ Activity Report.

5. Report should have sufficient detail to provide comprehensive accounting of annual 51(e) revenues and the uses of annual 51(e) revenues to enable the SWRDS Finance Committee to assess the utilization of these revenues.

X. OBJECTIVE 3A: SIMPLIFICATION OF BILLING

A. Implement the Freeze-Go Billing Methodology

1. The freeze-go date shall be January 1 of the first calendar year starting 18 six (6) months after the contract extension takes effect, but not earlier than January 1, 2017, provided that if the Department determines it to be necessary, the Department may rely on estimates and later true-up for billing and reporting purposes in the initial implementation years after the freeze go date.
2. Methodology will recover all costs incurred on and after the freeze-go date, by converting and authorizing repayment on a Pay-As-You-Go methodology.
3. Amend the definition of the Project Repayment Period to apply only to those costs incurred prior to the freeze-go date.
4. The term of the Project Repayment Period, January 1, 1961 through December 31, 2035, will remain the same.
5. The Water Systems Revenue Bond Surcharge will apply only to those costs incurred prior to the freeze-go date and will terminate at the completion of the Project Repayment Period.
6. Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to the freeze-go date. No interest rate, including the Project Interest Rate, shall be applied to the over/under charges for costs incurred after the freeze-go date. The Project Interest Rate will remain 4.610%.

~~Debt service of new debt issued for Capital costs incurred on or after the effective date of the amendment but before the Freeze-Go date of this amendment will be recovered on a Pay-As-You-Go basis.~~
7. In identifying "costs incurred" for purposes of determining whether the cost is incurred before the freeze-go date or on or after the freeze-go date, the following shall apply:
 - a) Variable costs shall be deemed to occur when the goods or service is provided, regardless of when the expenditure for such goods or service is recorded in the financial information system;

b) Capital and minimum costs shall be deemed to occur when the expenditure for the goods or service is recorded in the financial information system, regardless of the date the goods or service is provided.

B. Defining the Pay-As-You-Go Repayment of Costs Incurred On and After the Freeze-Go Date

1. The annual cost recovery within a bill year for estimated annual operation, maintenance, power, and replacement costs for project conservation facilities.
2. The annual recovery of actual debt service, including repayment of the SRA, created by SWRDS financing activities, within a bill year for financed capital transportation and conservation facilities.
3. A capital asset which has a short useful life and/or will not have a substantial cost, may be charged to the Contractors in the year the cost is incurred. The SWRDS Finance Committee may review and make recommendations to the Director regarding the policy of charging the costs of such assets.

C. Defining the Pay-As-You-Go Repayment of Actual Debt Service from SWRDS Financing Capital Costs On and After the Freeze-Go Date

1. Authorize SWRDS-DWR to finance 100% of all capital costs.
2. Authorize SWRDS-DWR to use various methods of financing including Water System Revenue Bonds and SRA, with each method providing an annual repayment schedule which includes a principal and interest (debt service) component over the life of the financing.
4. Authorize SWRDS-DWR to bill an amount that is equal to the accumulated annual debt service payments due per the debt service schedules for SRA investments or matching dollar for dollar the SWRDS annual debt service payments including the bond cover requirements, providing 100% capital cost recovery at the financed interest rate over the term of the financing while meeting the additional bond debt cover requirements.

XI. OBJECTIVE 3B: REPLACEMENT ACCOUNTING SYSTEM (RAS)

A. Elimination of the Replacement Accounting System (RAS)

1. Eliminate the Replacement Accounting System (RAS) for Transportation and Conservation Facilities with the intent to have replacement costs treated as a minimum or capital cost.
2. The unencumbered cash balance of the RAS funds are to be returned to the SWP Contractors using the RAS allocation methodology.

XII. OBJECTIVE 3C: ARTICLE 1 (hh)

A. Expanding Water System Facilities Authorized to be Financed by Water System Revenue Bonds Under Article 1(hh)

1. Eliminate the January 1, 1987 date for existing facilities within Article 1(hh)(8); provision to now read as follows, “ Finance all repairs, additions, and betterments to conservation or transportation facilities and to all other facilities described in this sub-article (hh) except for item (5) the land acquisition prior to December 31, 1995 for the Kern Fan Element of the Kern Water Bank.”
2. Add provision to ~~E~~expand Article 1(hh) to include “Finance all other capital projects (i.e. projects and programs for which revenue bonds can be sold) mutually agreed upon in writing by DWR and 80% of the affected Contractors, provided that the approving Contractors' Table A amounts exceed 80% of the Table A amounts representing all affected Contractors”. "Affected Contractors" means those ~~e~~C~~o~~ntractors which would be obligated to pay a share of the debt service for such project.

XIII. OBJECTIVE 3D: BILLING AUTHORIZATION

A. Billing Authorization

The Department, in fixing and establishing prices, rates, and charges for water and power, shall include as a reimbursable cost of any state water project an amount sufficient to repay all costs incurred by the department, directly or by contract with other agencies, for the preservation of fish and wildlife and determined to be allocable to the costs of the project works constructed for the development of that water and power, or either. Costs incurred for the enhancement of fish and wildlife or for the development of public recreation shall not be included in the prices, rates, and charges for water and power, and shall be nonreimbursable costs.

Such recreational purposes include, but are not limited to, those recreational pursuits generally associated with the out-of-doors, such as camping, picnicking, fishing, hunting, water contact sports, boating, and sightseeing, and the associated facilities of campgrounds, picnic areas, water and sanitary facilities, parking areas, viewpoints, boat launching ramps, and any others necessary to make project land and water areas available for use by the public.

In administering this Contract “development of public recreation” shall include recreation capital and operation and maintenance.

XIV. OBJECTIVE 4: BDCP AND DHCCP PARTICIPATION

The Department and some State Water Project contractors are directly participating in the development of the Bay Delta Conservation Plan (BDCP) and the associated Delta Habitat Conservation and Conveyance Plan (DHCCP). The details of the financing and repayment, specifically how the Department will charge each SWP contractor for future costs for implementation of the BDCP and DHCCP, has not been determined. Each contractor's participation in the implementation and financing of the BDCP and DHCCP should be voluntary.

~~The Agreement in Principle and subsequent contract amendments should limit each contractor's obligation to fund any implementing and related BDCP and DHCCP projects to only those contractors that agree to participate in those projects. Butte and Plumas shall not be responsible for any costs incurred by the Department for the BDCP and DHCCP unless each of them agrees to pay for such costs in the Agreement in Principle and subsequent contract amendments to the Statement of Charges. (SWP Contractors' letter to DWR; DWR letter in response to Plumas letter will include timing to initiate BDCP Cost Allocation negotiation process in public and addressing three North of Delta Contractors – Butte County, Plumas County Flood Control and Water Conservation District, City of Yuba City – topic first). This Objective will not be part of the SWP contract amendment based on this AIP. Instead, Contractor participation in the BDCP and DHCCP will be addressed through a separate public negotiation and environmental review process to develop appropriate SWP water supply contract amendments. DWR has begun the administrative process that will be used to facilitate the public negotiations of such amendments. The first public negotiation session is scheduled for December 2014.~~

XV. PROVISION 1 – OTHER CONTRACT PROVISIONS

Except as amended, all provisions of the Water Supply Contract shall be and remain in full force and effect.

XVI. PROVISION 12 – ENVIRONMENTAL REVIEW PROCESS

DWR and the Contractors agree that this ~~Agreement in Principle (AIP)~~ is intended to be used during the environmental review process for the California Environmental Quality Act (CEQA), to define the proposed project description for the purposes of CEQA, and to permit the next steps of the water supply contract extension process, including scoping and the preparation of the EIR.

The AIP principles are not final contract language and do not represent a contractual commitment by either DWR or the Contractors to approve any proposed project, to sign contract amendments, or to extend the contract. By concurring with the AIP, DWR and the Contractors express their intent to move forward with the CEQA process with DWR as lead agency and the Contractors as responsible agencies, and ultimately develop a proposed project consisting of contractual amendments consistent with the AIP principles and prepare the EIR for consideration by DWR and the Contractors.

At the end of the CEQA process and in compliance with CEQA, DWR and the Contractors will each individually evaluate the EIR and contract amendments, exercise their independent judgment, and determine whether or not to certify the EIR, approve the proposed project and sign the contract amendments or to approve an alternative project. Consequently, even though DWR and the Contractors have agreed to the AIP for the purposes described in the preceding paragraphs, DWR and each Contractor retain their full discretion under CEQA to consider and adopt mitigation measures and alternatives, including the alternative of not going forward with the proposed project.

XVII. PROVISION 23 – AUTHORIZED REPRESENTATIVE SIGNATURES

DWR and each eContractor may express concurrence with ~~this the Agreement in Principle (AIP)~~ and the CEQA process outlined in it by having their authorized representatives sign ~~below the AIP~~. DWR and each eContractor will use their best efforts to make a decision whether to sign the AIP by ~~July 1, 2014~~ September 1, 2014. The AIP may be signed in counterparts.

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By: _____
Name: _____
Title: _____
Date: _____

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

By: _____
Name: _____
Title: _____
Date: _____

ALAMEDA COUNTY WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

ANTELOPE VALLEY – EASTERN KERN WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

CASTAIC LAKE WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

CITY OF YUBA CITY

By: _____
Name: _____
Title: _____
Date: _____

COACHELLA VALLEY WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

COUNTY OF BUTTE

By: _____
Name: _____
Title: _____
Date: _____

COUNTY OF KINGS

By: _____
Name: _____
Title: _____
Date: _____

CRESTLINE LAKE ARROWHEAD WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

DESERT WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

DUDLEY RIDGE WATER DISTRICT

By: _____
Name: _____

Title: _____
Date: _____

EMPIRE WESTSIDE IRRIGATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

KERN COUNTY WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

LITTLEROCK CREEK IRRIGATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

MOJAVE WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

By: _____
Name: _____
Title: _____
Date: _____

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

OAK FLAT WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

PALMDALE WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

PLUMAS COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SAN GORGONIO PASS WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SANTA BARBARA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SOLANO COUNTY WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

TULARE LAKE BASIN WATER STORAGE DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

VENTURA COUNTY FLOOD CONTROL DISTRICT

By: _____
Name: _____
Title: _____
Date: _____